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150936Z Apr 05

C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001803

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STATE PASS AIT/W

E.O. 12958: DECL: 04/15/2015

TAGS: [PREL](#) [PGOV](#) [MASS](#) [MARR](#) [TW](#)

SUBJECT: SPECIAL BUDGET REMAINS IN POLITICAL LIMBO

REF: A. TAIPEI 1112

[1](#)B. TAIPEI 1201

Classified By: AIT Director Douglas H. Paal, Reason 1.4 (b/d)

[1](#)1. (C) Summary. Rising political discord among Taiwan political parties is complicating prospects for passage of the Defense Procurement Special Budget in the Legislative Yuan (LY). The political parties are largely focused inward on the domestic political debate and jockeying for short-term political advantage, to the disadvantage of larger security issues, including cross-Straits relations and the Special Budget. End Summary.

[1](#)2. (C) Vice Minister of National Defense Michael Tsai (Ming-hsien) told AIT on April 13 that the government is losing hope for passage of the Defense Procurement Special Budget in the current LY session scheduled to end in May (though it could extend into June). The growing political discord among Taiwan political parties, he explained, will likely prevent early passage of the bill. He noted the separate Kuomintang (KMT) and People First Party (PFP) legislative boycotts on cooperation with the ruling Democratic Progressive Party (DPP) -- the KMT in retaliation for the government investigation of Chiang Ping-kun for leading the KMT delegation to Beijing, and the PFP angry over DPP refusal to support the PFP "cross-Straits peace bill." Tsai, who is government point person in lobbying the LY to

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pass the Special Budget, said he was increasingly pessimistic on early passage. AIT notes that this represents a continued deterioration of the prospects for the Special Budget reported two weeks ago (Ref B).

[1](#)3. (C) Vice Minister Tsai noted that he had been hit hard in LY Defense Committee questioning over the last two weeks, particularly by PFP legislator Lin Yu-fang on the "excessive" amount of the Special Budget, and by independent maverick legislator Li Ao with one of his typically erudite but arcane points of order. Li Ao told Tsai that the U.S. should honor its pledge under the Taiwan Relations Act (TRA) to "give" the weapons systems in question to Taiwan. (Note: Li was trying to interpret the word "provide" -- "tigong" -- in TRA Sec 2(b)(5) to mean "give" in the sense of gratis.) Tsai responded by reminding Legislator Li Ao what Professor Li Ao had told Taiwan student activists, including Tsai himself, back in the 1960's -- "there is no free lunch," he quoted the 1960's Li Ao.

[1](#)4. (C) After Vice Minister Tsai departed to return to the afternoon session of the Hankuang 21 military exercise, his Special Advisor, Dr. York Chen (Wen-cheng), told AIT that MND is trying to work out a possible deal with Pan-Blue legislators to move the Special Budget out of the Procedure Committee into the Defense Committee, so that the bill would automatically carry over to the fall LY agenda. MND is trying for a package reducing the Special Budget to NT \$380-400 billion (US \$12-12.7 billion at current exchange rates), down from the Executive Yuan's early March 2005 budget submission of NT \$480 billion (US \$15.2 billion). Opposition Pan-Blue legislators, however, continue to push for greater cuts in the NT \$300-360 range. The MND and DPP legislators are floating a number of trial balloons to see if a compromise package can be devised. One of those "balloons" is a proposal to reduce the number of PAC-III missile batteries from six to five and moving the sixth battery to the regular budget cycle. When AIT explained (again) to Chen that the U.S. is opposed to splitting up the Special Budget and, in particular, hiving off the PAC-III missiles (Ref B), he responded that MND understands this, and is only considering possible "fiddling" on the margins of the PAC-III missiles because they are the easiest of the three missile systems to obtain further support for in the regular defense budget cycle. Trying to move submarines or P3C's to the regular budget cycle, on the contrary, would stir up strong opposition. He emphasized again that MND is simply floating trial balloons at this point, in search of possible areas for compromise, given the extremely querulous state of inter-party relations these days. "We have no choice but to compromise," Chen said, but emphasized that MND would keep

AIT advised of any developments.

15. (C) Comment. Special Budget prospects in the LY have deteriorated in direct proportion to the centrifugal forces at work on the Taiwan political scene. With DPP, KMT, and PFP each mad at the other two, and each wholly intent on squeezing any and all political mileage out of every available issue, it will take a major shock to halt the political disintegration and to resurrect the now moribund "reconciliation" approach of Premier Frank Hsieh. The pending visit to Mainland China by KMT Chairman Lien Chan would further complicate the Special Budget process, as the KMT would likely stonewall the legislative process prior to such a trip. AIT will be urging such discussion and reconciliation in public and privately with recalcitrant Pan-Blue political leaders in meetings over the next several weeks, but until Taiwan political parties at least moderate their political bickering, the Defense Procurement Special Budget appears set to remain one more available political football to be put in play for short-term political advantage.

PAAL